

BACKGROUND OF THE ECONOMY AND FINANCE SYSTEM IN  
UZBEKISTAN

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Annotatsiya

Tezisning asosiy mazmuni bugungi kunda islom moliyasi rivojlanib tobora moliya bozorida keng xizmatlari bilan biz uchun keng imkoniyatlar ochayotgani haqida. Bizga ma'lumki Markaziy Osiyoda Islom dini qancha asrlardan buyon bor bo'lgan va bugungi kunda ham Islomiy moliya va bank tizimida tarmoqli tartibda o'sib kelmoqda. Tan olib aytish kerakki bugun islom moliyasi nafaqat to'g'ri va halol moliya tizimi bilan balki moliya va bank tizimida yangi xizmatlari bilan ham butun dunyo uchun yangi va samarali tizimni taklif qilmoqda.

Annotation

The main purpose provided by this thesis is admitting today's Islamic finance becoming more developed and opening variety of chances in finance marketing by expanding its services. As it's known by all of us that Islam religion has been by many centuries and today's system of Islamic finance is increasing its services. I should admit that today Islamic finance not only the way of new glance to finance world but it has right and halal service and offers effective system for all.

Аннотация

Основная цель данной работа заключается в признании того факта, что сегодня исламское финансирование становится все более развитым и открывает множество возможностей в сфере финансового маркетинга за счет расширения спектра услуг. Как всем известно, исламская религия существует уже много веков, и сегодня система исламского финансирования расширяет



спектр своих услуг. Я должна признать, что сегодня исламское финансирование не только представляет собой новый взгляд на мир финансов, но и предлагает правильные и халяльные услуги, а также эффективную систему для всех.

Kalit so'zlar

GDP	Gross Domestic Product
CIS	Commonwealth of Independent States
FATCA	Foreign Account Tax Compliance Act
USSR	Union of Soviet Socialist Republics
IBFI	Islamic Banking and Finance Industry
CBU	Central bank of Uzbekistan
CBs	Conventional Banks

### Background of the Economy and Finance system in Uzbekistan

Today developed countries are searching new tools to their financial systems in order to be stronger in finance and economy than before, so it make a clear that, now developing countries also should think twice time ahead about new tools how to add and increase in financial system. Now, it is not a secret for all about how to add maximum new knowledge and methods to its' finance in order to make financially developed strong country. So, our todays financial index is making clear on statistics which we would be aware that Uzbekistan's economy continued to grow at a healthy rate with GDP rising to 888.3 trillion UZS, \$80.4 billion in 2022, or 5.7% in real terms. The service industry 3.2% was the main contributor to GDP growth, while the manufacturing 1.3%, agriculture 0.9% and construction 0.4% industries added the rest and net taxes on products decreased -0.1%. Uzbekistan's national currency Sum depreciated by 3.5% against the U.S. dollar.

The country's international reserves increased by \$0.7 billion to \$35.8 billion, and the public external debt rose by \$2.9 billion to \$29.2 billion. The





government did not publish private external debt data. Higher food, energy and logistics costs caused by the Russian invasion of Ukraine resulted in higher 12.3% inflation in Uzbekistan. The Central Bank raised the key interest rate from 14% to 17% in March 2022 and then cut it back to 15% in July 2022 and to 14% in March 2023 as the negative impact of the Russia-Ukraine war on Uzbekistan's economy was milder than expected and remittances to Uzbekistan surged by 2.1 times to \$16.9 billion in 2022. The remittances include not only the earnings of Uzbek labor migrants abroad, but also comprised financial transfers by Russian citizens who relocated, some temporarily and some permanently to Uzbekistan. (75, Uzbekistan - market overview)

Uzbekistan's trade turnover jumped 18% to \$50 billion with \$19.3 billion in exports and \$30.7 billion in imports. Import growth 20.4% continues to outpace export growth 15.9% resulting in a higher trade deficit. Industrial goods \$4.4 billion, gold \$4.1 billion and services \$4 billion accounted for 65% of the exports. Uzbekistan's import structure can still be explained by its ongoing industrialization and modernization policy: machinery and transport equipment 31.4%, industrial goods 18.8%, chemicals and similar products 13.8%. (75, Uzbekistan - market overview)

Major Trade Partners Uzbekistan official statistics, 2022:

Russia	18.6%
China	17.8%
Kazakhstan,	9.2%
Turkiye	6.4%
South Korea	4.7%

Uzbekistan's Constitution provides for a presidential system with separation of powers and a representative government. In practice, power is highly concentrated in the office of the president and the executive branch. The

government started to implement reforms required for transition to a more transparent, competitive and market-based economy in 2017. The Development Strategy of Uzbekistan for 2022-2026 was adopted in January 2022. (75, Uzbekistan - market overview)

Uzbekistan has signed bilateral agreements with 55 countries on the avoidance of double taxation. The U.S. Internal Revenue Service considers Uzbekistan to be one of the former Soviet republics now covered by a taxation treaty with the Commonwealth of Independent States CIS, as the successor to the dual taxation treaty signed between the United States and the Union of Soviet Socialist Republics USSR signed in 1973 and entered into force in 1976. However, the Government of Uzbekistan argues that this agreement cannot be considered in effect and has proposed signing a new double taxation treaty. In 2015, Uzbekistan and the United States signed the Intergovernmental Agreement to Improve International Tax Compliance with respect to the United States Information Reporting Provisions, commonly known as the Foreign Account Tax Compliance Act FATCA. The FATCA agreement entered into force in July 2017. (75, Uzbekistan - market overview)

Writers and scholars have written journals and articles on the operation, development and the legal aspects of Islamic banking and finance industry for opening in Uzbekistan. So now I would like to add my research work on total challenges faced while establishing Islamic finance and some practices from developing and developed countries how to established IBFI. Moreover, my research provides some statistic facts about what out turns will get our country by having Islamic finance in our economy and finance system. In addition, which should be stated and gathered in order to assist for establishment of Islamic banking service under the Uzbekistan finance and economy system.

My research work is based on making clearness how local finance in Uzbekistan can be work together with Islamic banking and finance, so what are challenges could be faced on local tax, local legislation and local market.





Moreover, the main local population of Uzbekistan consists of Muslim people and we live by following the rules of the Islamic religion in our usual life. I think it's necessary to create and establish sufficient adjustments to the legislation of our country for the local financial part and local economic system in taxation based on Islamic finance. This is really important to especially Muslim population and for others also one more option, as it can be just new financial tool according to self-choices. There are other religion people who got citizenship also live, work in our country and Islamic Finance is new product for all of us, so for them as well to deal their business with.

The CBU is the principal national regulator and the licensing authority with responsibility for oversight of the banking and financial services sector. Foreign lending transactions other than those backed by sovereign guarantee of the government of Uzbekistan are subject to registration by the CBU. The Centre for Coordination and Control of the Functioning of the Securities Market performs licensing for capital markets participants and acts as a registering authority for transactions involving depositories and joint-stock companies including banking institutions. (75, Uzbekistan - market overview)

Since emerged, the international banking industry including Islamic one has experienced major worldwide revolutions in its operational environment due to the impact of deregulation, advances in information systems and technologies, globalization, and the subsequent global financial crisis (Athanasoglou, Brissimis & Delis 2008). Various external and internal factors have impacted its operation and performance. Despite the growing trends toward reducing bank's intermediary role in many countries, the banks remain vital in financing most of the economic activity (Athanasoglou, Brissimis & Delis 2008). A healthy and profitable banking sector is a priority for national authorities due to its contribution to the stability of the financial system and economic growth. Therefore, the determinants of bank performance have stirred the interest of practitioners, policymakers, and international financial regulatory organizations.



Apart from the structural factors of IBFI products that could reduce its profitability, a new strand of literature has recently emerged to explore other internal bank-specific for instance: risk and expense management, capital structure and external macroeconomic, legal and corporate environment factors. The new strand of literature also attempts to examine and explain the precise effects of the internal and external determinants on the overall banking performance.

Different explanatory variables were presumed and tested by the literature to examine their precise effect on the profitability and performance of the banking industry. While the empirical findings of previous studies diverge significantly as a result of differences in datasets and environments, they all confirm the importance of such determinants in explaining the profitability variations between IBFI (Athanasoglou, Brissimis & Delis 2008).

The global Islamic banking industry has been experiencing different performance challenges since emerged. For example, in terms of size, many IBFI are found significantly smaller than their CBs in their national markets. Additionally, the industry lacks consistency in product structures and investment practices that adversely affect its credibility, reputation, perception and regulation capabilities (Hussain, Shahmoradi & Turk 2016).

Local Islamic banks: Local Islamic banks can provide valuable insights and guidance to foreign Islamic banks that are looking to expand into their markets. Local Islamic banks can also help foreign Islamic banks to develop relationships with regulators, customers, and other stakeholders.

#### References

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